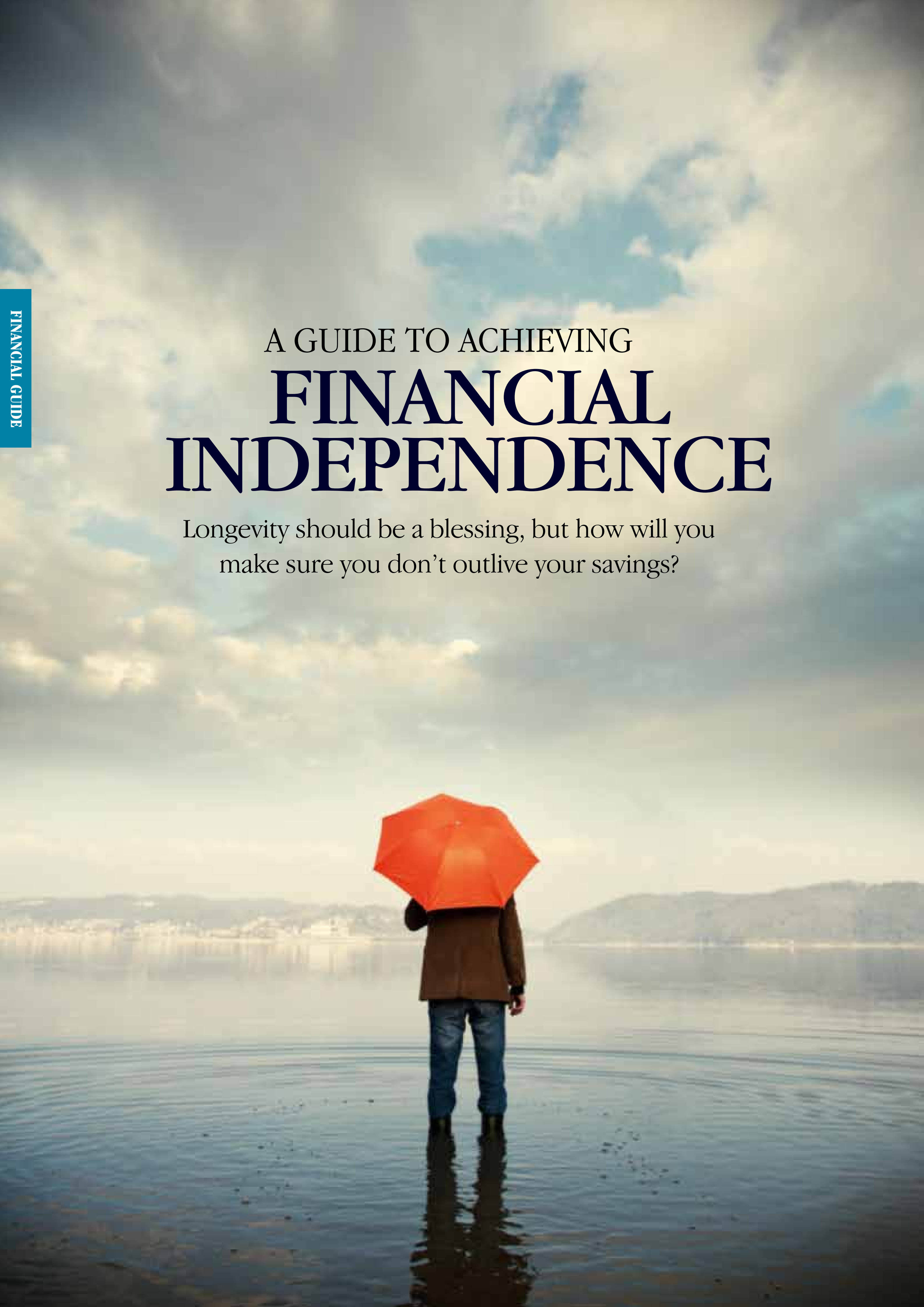
FINANCIAL GUIDE
A GUIDE TO ACHIEVING
FINANCIAL
INDEPENDENCE
Longevity should be a blessing, but how will you make sure you don't outlive your savings?

Welcome

The most important financial decision you will ever make

Welcome to 'A guide to Achieving Financial Independence'. Planning for your retirement is possibly the most important financial decision you will ever make, with life expectancy increasing year on year, we are now seeing the potential to spend almost as many years enjoying retirement as we have spent saving for it. Planning for it correctly will provide you with the standard of living you wish after you stop work.

One way of looking at this is to think about the number of paydays you have before you retire, and the number you hope to have afterwards. Imagine you start your pension planning when you're age 20, and you plan to retire when you're age 65. You have 540 paydays between starting your pension plan and retiring to achieve financial independence.

There's always a danger that we'll underestimate how much we are going to need so that we can do what we want to do, when we want to do it. Most of us probably feel we could also do with a little more money during or working years. Will that change so much when you stop working?

A sensible rule of thumb is typically to aim for a retirement income of around two thirds of your earnings when you retire. Either way, you need to decide how much you want, so you can plan and it is often easier to think in relation to your current earnings and decide how much of your salary you would want to maintain.

Then you need to consider how much you are already expecting from existing sources; this could include State Pensions, a mix of investments, property and savings that you have already built up which will be available to you when you eventually stop work.

Helping you take control of your future

Even if your retirement planning is up and running, that's not the end of the story. It's important that you review your contributions, particularly if you have a change of circumstances. If you don't know how your planning is doing, you can't know what your future will look like. We can work with you to develop strategies to accumulate further wealth in order for you to enjoy your retirement years. To discuss how we can help you take control of your future and plan to achieve financial independence in your retirement years, please contact us for further information.

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A new type of retiree

First post-war 'baby boomers' pass the old Default Retirement Age of 65

Securing your eventual financial independence in retirement requires making sure that your plans enable you to achieve this goal. Whatever provision you already have in place must be regularly updated as your circumstances and requirements change, and you need to ensure that you are still saving enough. But for many retirees' the future looks less certain.

The UK is witnessing the march of a new type of retiree as the first post-war 'baby boomers' pass the old Default Retirement Age of 65. According to Aviva's latest Real Retirement Report, more than one in three (39 per cent) over-55s are continuing to receive a wage and nearly half are intent on using their extra earnings to travel more when they finish full-time work.

Data from the latest census in 2011 showed there were 754,800 people aged 64 in England and Wales, and almost 6.5 million people are turning 65 over the next decade compared with 5.2 million in the previous decade. The spike is due to the post-war birth rate soaring when the armed forces returned from the Second World War, with the new-born generation dubbed the 'baby boomers'.

Pushing back the boundaries

Allied with improved health care, more people are remaining active as they approach retirement age, and the report shows how they are pushing back the boundaries at work and in their leisure time. 23 per cent of 65- to 74-year-olds were still wage earners in December 2012, compared with 18 per cent when the report first launched almost three years ago in February 2010.

Fuelling the rise of income and savings

With 55 per cent of 55- to 64-year-olds also still in employment, compared with 41 per cent in February 2010, this trend looks set to continue as more baby boomers pass the age of 65. It has already fuelled the rise of income and savings among over-55s during the last three years. The typical over-55 now has an income of £1,444 each month along with £14,544 in savings (December 2012), compared with a monthly income of £1,239 and savings of £11,590 in February 2010.

Enjoying the fruits of your labour

Despite 80 per cent being concerned by rising living costs over the next six months (December 2012), the UK's over-55s are determined to enjoy the benefits of extending their working lives. Nearly half (44 per cent) plan to use their extra time in retirement to travel more, while 42 per cent are focused on spending more time in their gardens.

Socialising is high on the agenda for many over-55s in retirement, with 37 per cent planning to invest extra time in their families and 33 per cent keen to socialise more with friends.

The most common motivation

They also have philanthropic intent: two-thirds (66 per cent) of over-55s would be interested in carrying out charity work or volunteering once they have retired. The most common motivation is to give something back to the community (49 per cent) and to stay active by getting out of the house (48 per cent).

A new model for later life

It's clear that the first baby boomers are setting out a new model for later life, and getting the most out of their improved physical health and the freedom to continue working for longer. Many people find that staying active in a job helps to keep them young at heart – with the bonus being that it boosts their earning and savings potential in the process.

The key to making the most of this opportunity is for people to start planning for their 60s and beyond well in advance. In this way, rather than accepting the old retirement stereotypes, you can have the freedom of choice about whether you continue to work or not, rather than feeling forced to carry on out of the demand to meet financial commitments.

Flexible for the future

Everyone enjoys using their wealth in different ways. For you, it might be the joy of travel, helping others through philanthropy, sharing your success with family and friends or your passion for collecting. It might be the simple freedom to do what you want, when you want. Whatever your priorities, we can help you use your wealth by ensuring it's working for you now and is structured to be flexible for the future.

Whether you're approaching retirement or already retired, find out how you can afford the retirement you want. Please contact us to discuss your requirements.

Saving for your retirement

The sooner you start saving for your retirement the more secure your future will be

Saving for your retirement may not seem important when you're starting out. But the sooner you start saving for your retirement the more secure your future will be.

Having a private personal or occupational workplace pension

It's so important to invest for your retirement. Putting as much as you can into a pension provision as soon as you can gives you a much better chance of having the retirement you want.

When planning your retirement there are three main types of pension you need to consider. These are State Pensions, private personal pensions and occupational workplace pensions.

The quality of life you want in your future retirement years will depend on what you contribute in the present. Planning your finances can help to ensure that you have the peace of mind, so that you can look forward to a secure and financially independent retirement. To discuss how we could help you achieve this goal, please contact us.

State Pension

A regular payment from the government that you receive when you reach State Pension age

The basic State Pension is a regular payment from the government that you receive when you reach State Pension age. To receive it you must have paid or been credited with National Insurance contributions.

The most you can currently receive is £107.45 per week (in 2012 to 2013).

The basic State Pension increases every year by whichever is the highest:

- earnings - the average percentage growth in wages (in Great Britain)
- prices - the percentage growth in prices in the UK as measured by the Consumer Prices Index (CPI)
- 2.5 per cent

Additional State Pension

The Additional State Pension is an extra amount of money that you could receive with your basic State Pension. It's also based on your National Insurance contributions.

How much you receive depends on your earnings and whether you've claimed certain benefits. There is no fixed amount like the basic State Pension. You receive the Additional State Pension automatically, unless you've contracted out of it.

The Additional State Pension is paid with your basic State Pension. It normally increases every year by prices - the percentage growth in prices in the UK as measured by the Consumer Prices Index (CPI). There is no fixed amount for the Additional State Pension.

How much you receive depends on:

- how many years of National Insurance contributions you have
- your earnings
- whether you've contracted out of the scheme

Once you've reached State Pension age and are claiming the basic State Pension you'll automatically receive any Additional State Pension you're eligible for. There is no need to make a separate claim.

You will not receive the Additional State Pension if you've contracted out of it. If you only contracted out for certain periods, you'll receive a reduced amount.

The Additional State Pension is made up of two schemes. You might have contributed to both, depending on how long you've been working.

The main difference between the two schemes is that since 2002 you also contribute to the Additional State Pension if you're claiming certain benefits.

The State Second Pension since 2002

You contribute towards your Additional State Pension through your National Insurance contributions when you're:

- employed and earning over the lower earnings limit of £5,564 a year (in 2012 to 2013)
- looking after children under 12 and claiming Child Benefit caring for a sick or disabled person more than 20 hours a week and claiming Carer's Credit
- working as a registered foster carer and claiming Carer's Credit
- receiving certain other benefits due to illness or disability

You're not eligible if you're:

- employed and earning less than £5,564 per year
- self-employed
- unemployed
- in full-time training

When you were working	Scheme you contribute to	When you contribute to the scheme
2002 to now	State Second Pension	You're employed or claiming certain benefits
1978 to 2002	State Earnings-Related Pension Scheme (SERPS)	You were employed

Contracting out of the Additional State Pension

You can only contract out if your employer runs a contracted out pension scheme, so you'll need to check this with them. If you're a member of a contracted out occupational workplace pension you don't contribute to the Additional State Pension for the time you belong to the scheme.

This means that when you retire you either don't receive any Additional State Pension or it might be reduced, depending on how long you contracted out. You and your employer pay lower National Insurance contributions while you contract out. When you retire, you'll get a pension from your employer's scheme.

To contract out you must be:

- earning at least the lower earnings limit of £5,564 a year (in 2012 to 2013)
- paying Class 1 National Insurance (or treated as paying them - check with your employer)

Different rules apply if you're a member of a salary-related pension scheme before 6 April 1997. These rights, known as the 'Guaranteed Minimum Pension', can't be taken before age 65 (men) or 60 (women). The Guaranteed Minimum Pension will continue to be paid at these ages even when the State Pension age rises.

There are a number of rules that can influence your retirement planning. To discover how we could help you save for your retirement and achieve financial independence please contact us for further information.

> "Last year, the National Association of Pension Funds (NAPF) announced that the lack of advice in this area might be costing half a million retirees each year as much as £1bn in future pension income."

Private personal pensions

To afford the lifestyle you want when you retire, you need to do something about it today

It may be tempting to say, "But retirement is a long way off", yet it's never too early to start investing in order to protect your future. To afford the lifestyle you want when you retire, you need to do something about it today. You now have a much greater choice when it comes to how and when to take retirement benefits from pensions since the pension simplification rules were introduced.

UK's pension tax regime radical overhaul

On April 6, 2006 major changes were introduced to the structure of UK Pension schemes. These changes heralded probably the most radical overhaul of the UK's Pension tax regime. The new simplified regime was largely a replacement of the past pension framework as opposed to the addition of another layer of legislation.

The most important thing is to plan your retirement funding strategy in advance. Anyone investing in a pension should remember that whilst pensions are extremely tax-efficient, it's important to regularly review where your money is invested. This becomes more important as you begin to approach retirement when your investment aims may gradually change from growing the value of your pension fund to protecting it.

A private personal or stakeholder pension scheme could be right for you if:

- you want to save money for retirement in addition to your occupational workplace pension
- you're self-employed, so don't have access to an occupational workplace pension scheme
- you aren't working but can afford to pay into a pension
- your employer offers it as an occupational workplace pension

Personal and stakeholder pensions are 'defined contribution' private pensions that you arrange yourself. You contribute money into a pension fund which you use to buy a regular income when you retire. Sometimes employers set up group personal or stakeholder pensions for their employees.

Tax-efficient environment

Personal private pensions grow in a tax-efficient environment. You pay no capital gains tax on any growth and no further UK tax on any income the investments produce, and income from fixed-interest investments and deposits are received gross.

UK investors under age 75 can benefit from up to 50 per cent pension tax relief (2012/13 tax year) and 45 per cent (2013/14 tax year).

The higher your rate of tax, the more tax relief you could receive. Even non earners, including children, and those with an income under £3,600 can benefit, but can only contribute up to £3,600 this tax year.

Basic-rate tax relief of 20 per cent is added automatically. For instance, you contribute £8,000 to your pension and the government adds £2,000, to make a total investment of £10,000.

Higher-rate taxpayers can claim back up to a further 20 per cent through their tax return – another £2,000 in this example. So the cost of a £10,000 contribution is as little as £6,000.

Top-rate taxpayers can claim back up to a further 30 per cent (2012/13 tax year) through their tax return – another £3,000 in this example – so the cost of a £10,000 contribution is as little as £5,000, and 25 per cent (2013/14 tax year).

Annual allowance

The annual allowance (£50,000 in the 2012/13 to 2013/14 tax years) caps the maximum contributions that can be made by anyone (yourself or your employer, for instance) into all your pensions in a tax year. This limit does not apply to consolidating pensions, but includes the value of benefits built up in final salary schemes.

The table shows you the annual allowance for the tax years 2012/13 to 2013/14. Lifetime allowance

Tax year	Annual allowance
2012/13	£50,000
2013/14	£50,000

The lifetime allowance is the maximum amount of pension benefit you can build up over your life that is available for tax relief. If, when you take your pension benefits, these are worth more than the lifetime allowance there is a tax charge (the lifetime allowance charge) on the excess.

The lifetime allowance charge is a tax charge paid on any excess in the value of your pension benefits over the lifetime allowance limit. The rate depends on how this excess is paid to you. If the amount over the lifetime allowance is paid as:

- lump sum - the rate is 55 per cent
- taxable pension - the rate is 25 per cent

The table shows you the lifetime allowance for the tax years 2012/13 to 2013/14.

Tax year	Lifetime allowance
2012/13	£1,500,000
2013/14	£1,500,000

Input periods

When you contribute to a private personal pension, your contributions count towards the annual allowance of the tax year in which they are made. For instance, a contribution you make in March 2013 counts towards the 2012/13 tax year. This is not necessarily the case for other pensions. If you have contributed more than £50,000 across the last two tax years, a contribution you make could unknowingly take you over the annual allowance.

Carry forward

If your total pension contributions for the tax year are more than the annual allowance you may still be able to claim tax relief as you can carry forward any unused allowance from the previous three years to the current tax year. You will only have to pay tax on any amount of pension contributions in excess of the total of the annual allowance for the tax year plus any unused annual allowance you carry forward. These carry forward rules are not being changed. The effect of this is that for 2014/15 you will be able to carry forward up to £50,000 unused allowances from each of the tax years 2011/12 through to 2013/14.

When you can receive your pension

The earliest age you can receive a private personal or stakeholder pension is usually 55, depending on your arrangements with the pension provider or pension trust. You don't have to be retired from work.

The 3 basic steps when arranging your retirement income are:

- decide when you want to retire
- decide how you want to be paid
- shop around for the best deal on a regular payment (buying an 'annuity')

Deciding when to retire

Generally, the older you are when you take your pension the higher the payments because your life expectancy is shorter.

Deciding how you want to be paid

When you're close to retirement you have to decide how you want your pension to be paid. This will depend on the arrangements you have with your pension provider but usually you'll have the option to take up to 25 per cent of your pension fund money as a tax-free lump sum and the rest as regular payments. These could be monthly, quarterly, half-yearly or annually.

If all your pension funds total £18,000 or less, you can usually take the whole amount as a lump sum. You have to be at least 60 to do this. If your private personal pension or stakeholder pension is less than £2,000 you can usually take it as a cash payment, no matter how much you get from other pensions.

In some cases, when you're under 75 and are expected to live less than a year, you can take your whole fund as a lump sum. You won't have to pay tax on it unless your pension funds are worth more than the lifetime allowance.

Make sure you really enjoy your retirement

You deserve a comfortable retirement where you don't have to worry about getting by on a State Pension and other benefits. By acting now and putting in place your pension arrangements, or by reviewing your current pension provision, you're making sure that you can really enjoy your retirement. Contact us to discuss how we could help you plan – don't leave it to chance.

> "The most important thing is to plan your retirement funding strategy in advance. Anyone investing in a pension should remember that whilst pensions are extremely tax-efficient, it's important to regularly review where your money is invested."

Buying your annuity

An important one-off decision that has long-term consequences if you get it wrong

If you save through a private personal pension, when you approach retirement age you'll have to decide what to do with the pension fund you have built up. If applicable to you, one option is to buy an annuity. It's important to find an annuity that suits you and provides the best deal because, after your property, an annuity is probably the biggest purchase you will ever make.

An annuity is the annual pension that many people buy with their private pension pots when they retire. Purchasing your annuity is an important one-off decision that has long-term consequences if you get it wrong. You may not receive the best deal if you just take the annuity offered by the insurer that has been investing your money.

Lack of professional financial advice might be costly

You only have one opportunity to shop around for your annuity. This is called exercising the open market option. Once you have committed to an annuity provider and started to receive an income, the decision can't be reversed. So it is essential that you shop around and obtain professional financial advice to help you through the process.

Failure to shop around

The National Association of Pension Funds (NAPF) pointed out that the failure of someone to shop around – or being unaware they were able to do so – might reduce their annual pension income by a third.

The insurance industry has now agreed to reform its annuity practices, and from 1 March this year insurers have to conform to new guidelines set down by the Association of British Insurers (ABI).

New guidelines will require insurers to:

- provide clear and consistent information, including details on how to shop around for an annuity
- highlight the details of enhanced annuities – the higher pension income available to those with shorter life expectancy
- signpost clients to external advice and support that is available
- give a clear picture of how their products fit into the wider annuity market

The point of retirement

Insurers have been obliged since 2002 to draw their client's attention to the fact that they can shop around for an annuity at the point of retirement.

One of the ways in which people may end up with too small an annuity is by not taking into account their own medical circumstances. Having conditions as seemingly manageable as high blood pressure or diabetes, could qualify you for an enhanced annuity, which could pay you more income because your average life expectancy may be less.

Want help to compare rates?

Not only will different annuity providers offer different rates, they'll also offer different annuity options. We can help you shop around to find the right type of annuity that suits you. To discuss the options available to you, please contact us.

> "You only have one opportunity to shop around for your annuity. This is called exercising the open market option. Once you have committed to an annuity provider and started to receive an income, the decision can't be reversed."

Each year, people buying annuities give away £1 billion in pension income by failing to shop around. Whatever you do, shop around otherwise you could regret it for the rest of your life.
Source: The Money Advice Service

Key points about annuities:

- make the right decision now, because you cannot reverse it later; don't just accept the annuity your pension provider gives you
- shop around – it could be worth up to a third more income per month for you
- you can combine multiple pension pots into one annuity
- common health issues, including smoking, high blood pressure and diabetes, can lead to an even higher monthly income
- obtain professional financial advice

Lack of knowledge

Getting the best annuity rate is just the tip of the iceberg. There are many important issues which, if ignored, could have a detrimental effect on your annuity income. At present, many people who cash in their pensions simply sign up to the annuity provided by their insurer. But this is rarely the best offer.

Live better in retirement

If you are approaching your retirement we can take you through the process step by step to find the best annuity for you. Your retirement should be a special time when you do those things you never had the opportunity to do before. So it's essential you think and plan carefully, as the decisions you take now cannot be undone later. If you are concerned about your retirement provision, please contact us to review your current situation.

Handing over all, or part of your, pension fund

To calculate your annuity they take into account:

- your age
- your gender
- the size of your pension fund
- interest rates
- sometimes your health

Examples of health problems that might entitle you to a higher income include:

- cancer
- chronic asthma
- diabetes
- heart attack
- high blood pressure
- kidney failure
- multiple sclerosis
- stroke

There are other health conditions that could also mean you receive a higher income, so if you're on any prescription medication it's worth checking with your provider whether you are likely to qualify.

Other reasons for higher payments

You might also be able to get a higher monthly retirement income if you are overweight or if you smoke regularly.

Some companies also offer higher annuity rates to people who have worked in certain jobs, such as those involving a lot of manual labour, or who live in particular areas of the country.

Different types of annuity

Valuable options that allow you to tailor the income you need

In the UK, there are basically two types of annuity:

- pension annuities (compulsory purchase)
- purchased life annuities (voluntary purchase)

All annuities share the following characteristics:

- they pay a level of guaranteed income
- they turn a lump sum into a stream of future income lifetime annuities guarantee to pay an income for as long as you are alive, no matter how long you live
- when you die, payments stop, unless you have chosen a joint life annuity, a guaranteed payment period or a value protected (money back) annuity

Tailoring the income to meet your personal circumstances

Annuities have a number of important and valuable options that allow you to tailor the income to meet your personal circumstances.

Single or joint

As you approach retirement, you'll need to decide how you want to take an income from your pension fund. One key thing to decide is whether you want an income just for yourself (individual), or one that would continue to pay out to a partner or dependant if you were to die (joint). Your choice of income could make a big difference to you and a partner or dependant, so it's important to consider your options.

Fixed-term annuities

If you need an income in retirement, but are unwilling to commit to an annuity for the rest of your life, you can use all or part of your pension fund to buy an annuity for a set number of years. These are called fixed-term annuities.

Fixed or increasing annuities

If you're buying an annuity to provide you with a retirement income, one of the key choices you must make is whether to opt for an annuity that provides a fixed pension income or one that increases each year. You'll initially get more with a fixed retirement income than with an increasing one, but its buying power will go down over time.

Investment-linked annuities

With an investment-linked annuity your pension income varies to reflect changes in the value of investments such as stocks and shares. This means you can benefit from stock-market growth after your retirement. There's also a risk that the value of your income could fall, but most investment-linked annuities limit this risk.

"If you're buying an annuity to provide you with a retirement income, one of the key choices you must make is whether to opt for an annuity that provides a fixed pension income or one that increases each year."

Retirement income guarantee

Additional income protection

If you have a partner or other dependants, such as children, you might want to think about additional retirement income protection. With income protection, your named dependants could get some or all of your retirement income if you die, either as regular payments over a period of time, or as a one-off lump sum.

Having a guarantee period means your retirement income will be paid out for a specific number of years from the time you start taking a pension income. Guarantee periods are often for five or ten years, but you can usually choose any period of years up to 10 years. If you die during this period, your pension income could be paid to your partner or other named dependants, such as your children.

Sometimes if someone dies during a guarantee period, a lump sum payment is made to their estate instead, in which case tax might need to be paid on the money.

You shouldn't see a guarantee period as an alternative to a joint retirement income. This is because any income will stop at the end of the guarantee period, rather than when your partner or dependants die. That would mean they could be without an income for a period of time.

A guaranteed period is more frequently used in addition to a joint-life annuity. This is because the cost of the additional benefit is minimal compared to the added protection it provides should you die in the early years of your retirement.

Annuity protection

An annuity protection lump-sum death benefit is another way of ensuring your retirement income doesn't stop when you die.

When you die, your estate or beneficiaries receive a lump sum of the difference between the fund value used to buy your annuity less the gross pension payments received prior to death.

In most instances, there is a tax charge of 55 per cent on the lump sum. And depending on the amount of money left in your estate after the payment is made, there could be an inheritance tax charge too.

An annuity with a guarantee period or with a lump-sum death benefit will typically be more expensive than a straightforward annuity. This means the income you get will be lower. Not all providers offer all the different types of retirement income protection.

Gender neutrality

Women could increase their pension income by over 20 per cent

The new 20 per cent uplift in capped income withdrawals, applicable from the 26 March this year, means that people could start to see the benefit of this uplift from the start of their new income year following this date.

New gender neutral rules

An income year is driven by the date a person first started taking income withdrawals from their pension. While people do not need to take any action for this uplift to take effect, women could see their income rise by over 20 per cent as a result of the new gender neutral rules, but they need to take steps to achieve this.

Changes to the maximum capped income calculation as a result of gender neutrality commenced on 21 December 2012. The factors that determine the amount of income withdrawals that men and women are permitted to take from their pension each year is now identical, which means the position for women has improved significantly.

Extremely beneficial for women

To benefit from the new gender neutral rates, an income recalculation point is needed for women. It could be extremely beneficial for women to take this action, especially if more income is needed to live on.

The 20 per cent uplift in pension income will happen automatically, however, women can now benefit from enhanced gender neutral terms, so if applicable to you, it is important you find out whether triggering a recalculation could increase your income even further.

Some pension schemes have the flexibility to recalculate the income annually, making it easy for women to take advantage of this enhancement. For those who are in a scheme that does not offer annual reviews, you could still trigger a recalculation by transferring new money into your capped income fund, but you should always seek professional financial advice to ensure this is the best option.

Income drawdown

When you're not ready to convert your pension fund into retirement income

If you decide that you're not ready to convert your pension fund into retirement income by buying a lifetime annuity, but you do need funds, you have a few options. These are often known as income drawdown options.

Income drawdown is a type of pension product that enables you to take an income from your pension fund while leaving it invested so you can continue to benefit from growth in the fund. By using income drawdown, you could avoid or defer having to turn your fund into an annuity.

There are two kinds of income withdrawal:

- capped drawdown
- flexible drawdown

In both cases, any income you take from your pension is taxed in the same way as all other pension income.

Capped drawdown

Capped drawdown is the more common type of the two types of income drawdown.

There is:

- an upper limit on the income you can take
- a requirement to review the upper limit every three years
- no minimum level of income you must take – so your fund can remain invested for as long as you like without drawing any income at all

Flexible drawdown

Under flexible drawdown, there are no limits on the income you can draw, but you must be able to show you are already receiving other pension income of at least £20,000 a year. This minimum income level includes state pension benefits, salary-related pensions, lifetime annuities and scheme pensions. This limit applies to 2012/13 and may change in the future.

Income drawdown is an option with many personal private pensions as well as with some occupational workplace money purchase schemes. If you're in an employer's scheme and want to use income drawdown, you might first need to consolidate your pension rights from the employer's scheme to a personal pension.

Due to the increased charges and investment risk associated with income drawdown, it is generally not used for pension funds smaller than £50,000.

Minimising potential taxes and duties on your death

Immediate access to your pension funds, allowing you to take out what you want, when you want it

As your wealth grows, it is inevitable that your estate becomes more complex. With over 400,000 people now expected to reach age 75 each year [1], more and more people could be faced with a 55 per cent tax charge on any money left in their pension fund when they die.

Free of any death tax

Money saved via a pension can be passed on to a loved one, usually outside their estate and free of any death tax, provided the pension fund has not been touched and they die before age 75. People fortunate enough not to need immediate access to their personal pension may therefore decide not to touch those savings for as long as possible.

However, once someone reaches age 75, the death benefit rules change dramatically and their entire pension fund may become subject to a 55 per cent tax charge on death. This means it can become a race against time for many individuals to reduce the impact of this charge.

Flexible drawdown lifeline

It can take years to move money out of the 55 per cent death tax environment using capped income withdrawals due to the set limits on the amount that can be withdrawn each year. A lifeline can, however, come in the form of flexible drawdown. Flexible drawdown can provide people with immediate access to their pension funds, allowing them to take out what they want, when they want it. Flexible drawdown is only available to people who are already receiving £20,000 p.a. minimum guaranteed pension income – which can include their state pension entitlement.

For individuals who wish to leave as much as possible to their beneficiaries, taking income from their pension and gifting it to their beneficiaries under the 'normal expenditure' rules will allow certain amounts of money to be passed to their beneficiaries outside their estate.

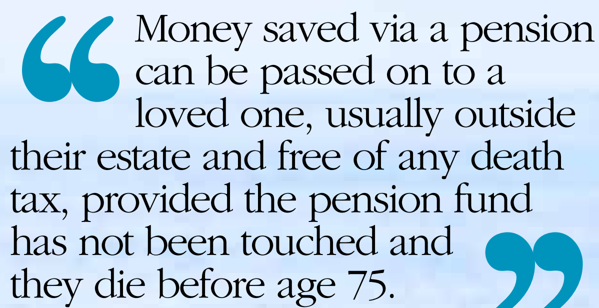
Passing money outside your estate

This may be more tax-efficient than suffering the 55 per cent death tax charge, or the 40 per cent inheritance tax charge if the money is simply brought into their estate. Any money taken out under flexible drawdown will be subject to income tax, so higher rate tax payers need to be careful to ensure the money is either passed on outside their estate tax-effectively or that their estate is within the annual IHT allowance of £325,000 (2012/13 and 2013/14 tax years).

This may be particularly relevant for people who are approaching, or who have already reached, their 75th birthday, especially as many older pension arrangements will not allow pension savings to continue to be held beyond that date.

Younger people who have accessed their pension fund, even if it's just to take the lump sum cash, could also be at risk of the 55 per cent death tax, and could benefit from moving funds out of this environment as efficiently as possible.

Flexible drawdown is a complex product. If you are at all uncertain about its suitability for your circumstances you should seek professional financial advice. Your income is not secure. Flexible drawdown can only be taken once you have finished saving into pensions. You control and must review where your pension is invested, and how much income you draw. Poor investment performance and excessive income withdrawals can deplete the fund.



Want to investigate the opportunities available to you?

The benefits of flexible drawdown should not be underestimated. Putting off accessing your pension income could store up problems when you reach age 75. But once someone does access their pension fund, regardless of age, flexible drawdown could dramatically help with estate planning. To investigate the opportunities available to you, please contact us today.

Source - [1] Office of National Statistics, figures from 2011 Census.

Occupational workplace pensions

"So what do I do with my money?"

There are two main types of occupational workplace pension schemes:

Defined contribution pension schemes

A defined contribution (DC) or money purchase pension scheme is one that invests the money you pay into it, together with any employer's contribution and gives you an accumulated sum on retirement, with which you can secure a pension income, either by buying an annuity or using income drawdown.

Occupational pension schemes are increasingly a DC, rather than defined benefit (DB), where the pension you receive is linked to salary and the number of years worked. As an alternative to a company pension scheme, some employers offer their workforce access to a Group Personal Pension (GPP) or stakeholder pension scheme.

External pension provider

In either case, this is run by an external pension provider (typically an insurance firm) and joined by members on an individual basis. It's just like taking out a personal pension, although your employer may negotiate reduced management fees. They may also make a contribution on your behalf. GPPs are run on a DC basis, with each member building up an individual pension 'pot'.

The amount you receive depends on the performance of the funds in which the money has been invested and what charges have been deducted.

Degree of choice

Although your total pension pot usually increases each year you continue to pay into the scheme, there's no way of accurately predicting what the final total will be and how much pension income this will provide. Unlike those who belong to a DB pension scheme, members of DC pension schemes have a degree of choice as to where their pension contributions are invested.

Many opt to put their money in the scheme's 'default fund', but some will want to be more cautious, investing in cash funds and corporate bonds, while others may prefer a more 'adventurous' mix, with equity and overseas growth funds. GPPs also offer investment choice, often between funds run by the pension provider.

During your retirement

Defined contribution pension schemes allow you to build up a personal fund, which is then used to provide a pension income during your retirement. The usual way of doing this is to buy a lifetime annuity. The alternative is to leave your pension pot invested and draw a regular income from it each year.

Lifetime annuities are essentially a form of insurance, which removes individual risk by paying out a set amount each year for the rest of your life. How much you get depends on your age, your health and the prevailing annuity rates at the time you come to convert your fund.

Open market option

A workplace fund will usually negotiate a rate on your behalf, but you're not obliged to take this and can opt instead, to shop around, comparing rates from other providers, by exercising the open market option. For those with poor health, it can be particularly advantageous.

Drawdown schemes are less predictable. They continue to depend on investment performance to maintain your pension pot. If the investments do badly, or you deplete your capital too early, there's a risk of your income declining significantly before you die.

Before buying an annuity, you can, on retirement, take up to 25 per cent of your pension savings as a tax-free lump sum. This reduces the pension income you can secure by buying an annuity, but may be worthwhile if you need the money (to pay off outstanding debts, for example) or decide to invest it independently. The earliest you can draw a pension or take a lump sum is from the age of 55.

Defined Benefit schemes

A defined benefit (DB) pension scheme is one that promises to pay out a certain sum each year once you reach retirement age. This is normally based on the number of years you have paid into the scheme and your salary either when you leave or retire from the scheme (final salary), or an average of your salary while you were a member (career average). The amount you get depends on the scheme's accrual rate. This is a fraction of your salary, multiplied by the number of years you were a contributing member.

Typically, these schemes have an accrual rate of 1/60th or 1/80th. In a 1/60th scheme, this means that if your salary was £30,000, and you worked at the firm for 30 years, your annual pension would be £15,000 (30 x 1/60th x £30,000 = £15,000).

Your pay at retirement

How your salary is defined depends on the type of scheme. In a final salary scheme, it is defined as your pay at retirement, or when you leave, if earlier. In a career average scheme, it is the average salary you've been paid for a certain number of years.

Final salary and career-average schemes offer the option of taking a tax-free lump sum when you begin drawing your pension. This is restricted to a maximum 25 per cent of the value of the benefits to which you are entitled. The limit is based on receiving a pension for 20 years - so for someone entitled to £15,000 a year, the maximum lump sum might be £75,000 (25 per cent x £15,000 x 20= £75,000).

Scheme's 'commutation factor'

Taking a lump sum at the outset may reduce the amount of pension you get each year. The amount you give up is determined by the scheme's 'commutation factor'. This dictates how much cash you receive for each £1 of pension you surrender. If it is 12, for example, and you take a £12,000 lump sum, your annual income will fall by £1,000.

As well as providing pension income, most defined benefit company schemes also offer additional benefits to their members.

These include:

- death in service payments to a spouse, civil partner or other nominated individual if you die before reaching pensionable age and/or a continuing partner's pension if you predecease them after reaching pensionable age
- full pension if you're forced to retire early due to ill health
- reduced pension if you retire early through choice. It normally cannot be paid before age 55, and it may be considerably reduced by the scheme's 'actuarial reduction' rules. An actuarial reduction is a cut in the yearly pension (to take into account that it will have to be paid out for more years). It is common to surrender 6 per cent for each year below normal retirement age that you retire. The pension will also be lower, because the number of years on which it is based will be fewer than would have been the case if you'd work a full term

Closed to new members

Most private sector schemes have now been closed to new members, and replaced by defined contribution (DC) schemes. A large number remain open to existing members who are still employees, however, or those who have left the firm but built up contributions while they were there and retain the right to a 'preserved pension' when they reach retirement age.

Many public sector pensions are still defined benefit schemes, underwritten by central government. This has caused them to be called 'gold-plated', as they offer a certainty that few private sector schemes can now match. But, even in the public sector, pension promises are being cut back with a shift from final salary to career average and increases in the normal pension age.

Expensive to run

Because they're so expensive to run, final salary schemes have been closed to new members since the 1990s. This means that new employees cannot join them, but are covered by defined contribution, money-purchase schemes instead.

Until recently, closed schemes continued to remain open to existing members, who carried on making contributions each year and accruing additional years' pensionable service. Some schemes found this too much of a drain, however, and have opted to close to existing members, too.

Pension is 'preserved'

When this happens, employees at a firm can no longer pay into the final salary scheme, even though they continue to work for the same employer. Their DB pension is 'preserved' in the same way as someone who has left the firm and they are typically invited to pay into a DC (money purchase) scheme for the rest of their career.

This leaves them with two separate pension incomes - one from the old DB scheme, based on the number of years' service and salary at the time of closure, and another from the new DC scheme, based on the contributions they have paid into it. This is not guaranteed, but depends instead on the scheme's underlying investment performance (net of charges) and annuity rates at the time the member wants the pension to start.

Retirement is a major change in life, and sometimes it's hard to plan beyond it – especially if you're worried that you won't have the funds you need. But it's best to plan early for retirement if you can. The first step is to set out your retirement goals and contact us to review your finances. We look forward to hearing from you.

Workplace pensions

Frequently asked questions

UK employers now have a legal duty to enrol most employees into a qualifying workplace pension scheme and contribute towards their retirement following changes in the Pensions Act.

Q. Is everyone being automatically enrolled into a workplace pension?

A. Starting from October 2012 (very large employers first), every employer has to enrol into a workplace pension, workers who:

- are not already in a qualifying workplace pension scheme
- are aged 22 or over
- are under State Pension age
- earn more than a minimum amount (£8,105.00 a year in 2012/13); and
- work or usually work in the UK

Q. I meet the criteria, when will I be enrolled?

A. If you meet the criteria, the timing of when your employer will enrol you into a workplace pension depends on their size. Very large employers commenced in late 2012 and early 2013. Other employers will follow sometime after this, over several years. Your employer will give you the exact date nearer the time.

Q. What if I don't meet the criteria to be enrolled?

A. If you don't meet the criteria above when your employer starts enrolling workers, you will not be automatically enrolled into a workplace pension. However, you may be able to join the pension scheme if you want, if you are not already a member. Your employer will let you know (so long as you're 16 or over, and under 75).

If you meet the criteria at a later date, for example you turn 22 or you start to earn more, and you are not already a member, then your employer will automatically enrol you.

Q. Why is this happening?

A. The aim is to help more people have another income, on top of the State Pension, when they retire.

The State Pension is a foundation for your retirement. If you want to have more, you need to save during your working life. Otherwise, you may reach retirement facing a significant fall in your standard of living. The full basic State Pension in 2012/2013 is £107.45 a week for a single person.

The government is getting employers to enrol their workers automatically into a pension at work so it is easier for people to start saving.

You can opt out if you want to, but if you stay in you will have your own pension which you get when you retire.

Q. Who will pay into the pension?

A. You will pay into it. Your employer will pay into it too. They have to do this if you earn more than a certain amount (£5,564.00 a year in 2012/13). Plus most people will get a contribution from the government in the form of tax relief. This means some of your money that would have gone to the government as tax, goes into your pension instead.

Q. How much will I receive from my workplace pension when I retire?

A. It's possible to get an idea of how much you will receive from your workplace pension by obtaining a 'pension estimate' (also sometimes known as a 'pension projection').

Q. What if I move jobs?

A. You may be automatically enrolled into a new workplace pension. This will depend on the size of your new employer, when you move, and if you meet the criteria listed in question one. Very large employers will automatically enrol all new workers who meet the criteria from late 2012 and early 2013 onwards. Smaller employers will follow sometime after this.

If your new employer has a workplace pension but they don't automatically enrol you, they may give you the option of joining if you want.

If your new employer doesn't automatically enrol you, this will be because of one or both of the following reasons:

- they are not yet required to do so; or
- you don't meet the criteria listed at question one

If you start a new pension (either 'workplace' or 'personal'), you may be able to combine your old pension with your new one. Your new pension scheme provider will be able to tell you if this is possible and, if so, how to go about doing it.

Or if you want to, you might be able to continue making contributions to your old pension scheme after you've left your job. You would need to contact whoever runs your pension scheme to find out if this is possible, if there will be a cost involved and if you will get tax relief.

If you can't or don't want to do either of these options, then what happens to your pension depends on the scheme rules.

Nowadays lots of people move jobs several times in their working lives, so it's important to keep track of the pensions you have. Keeping your statements will help you do this. If you have lost track of a pension, the government's Pension Tracing Service could help provide you with the contact details for that pension.

Q. What if I leave my job to become self-employed or stop working?

A. You should think about what income you'll have to live on in later life. Your employer will stop paying into your workplace pension, but you might be able to continue contributing, if you want. Alternatively, you might want to set up your own personal pension, or put other plans in place to give you an income when you retire.

Q. What happens to my pension if I die before retiring?

A. The rules vary depending on the type of scheme. If you can nominate someone, whoever runs your pension should ask you to confirm in writing who that person is when you first join the pension.

If they don't do this, you should ask them for a nomination form. You can change your nomination at any time. It's important to review it if your circumstances change.

Please note: although in most cases the money will go to whoever is nominated, organisations who run pension schemes are allowed to pay it to someone else if this is needed. For example, if the person nominated cannot be found or has died.

Q. Can I take the money out?

A. Currently, most people can't take money from any pension scheme until they are aged at least 55. The exact age you get your pension depends on the rules of the scheme.

Q. I'm paying into a personal pension already, what should I do?

A. It's possible to have both a workplace pension and your own personal pension, so you could choose to continue paying into both. Or you might choose to continue with just one of them. It depends on your circumstances – for example, what you can afford and what your personal and workplace pension schemes are offering. With your workplace pension, you will receive a contribution from your employer that you won't get with your own personal pension. However, your own personal pension may have a guarantee about future income.

Q. I had a workplace pension in a previous job, what should I do about that?

A. You could leave it where it is. You will get it when you retire, so long as you were in the pension scheme long enough. The length of time needed will be in the pension scheme rules. Or you might be able to consolidate it with your new workplace pension. If you're considering doing this, you need to obtain professional financial advice to assess if this is possible and, if it is, how to go about doing it.

If you have lost track of a pension, the government's Pension Tracing Service could help provide you with the contact details for that pension.

Self-Invested Personal Pensions

Taking more control over your pension fund investment decisions

If appropriate to your particular situation a Self-Invested Personal Pension (SIPP) could be another option to consider if you require the flexibility to choose where your pension money is invested. SIPPs are now also open to people of lower incomes - not just those with commercial property.

More accessibility

A SIPP is a personal pension wrapper that offers individuals greater freedom of choice than conventional personal pensions. However, they are more complex than conventional products and it is essential you seek expert professional financial advice.

SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf. Individuals have to appoint a trustee to oversee the operation of the SIPP but, having done that, the individual can effectively run the pension fund on his or her own.

Thousands of funds

You can typically choose from thousands of funds as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs.

Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

Unrivalled tax benefits

SIPPs, like all pensions, have unrivalled tax benefits. If you aren't using a pension to save for retirement you could be missing out on valuable tax relief. In the current 2012/13 tax year you could receive up to 50 per cent tax relief on any contributions you make and pay no income or capital gains tax on any investments returns inside your SIPP.

Other considerations

You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income and, in some cases, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund.

The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned.

A SIPP could be a suitable option if you:

- would like to have more control over your retirement fund and the freedom to make your own investment decisions, or prefer to appoint investment managers to do this for you and are prepared to pay a higher cost for this facility
- would like a wide range of investments to choose from
- want to consolidate your existing pension(s) into a more flexible plan
- need a tax-efficient way to purchase commercial property

We can help you decide whether a SIPP investment is right for you and outline the options available to enable you to take full investment control over your retirement planning, while enjoying the tax benefits available. For more information please contact us.

Dividends received within a SIPP do not come with a 10 per cent tax credit, so basic rate taxpayers are no better off receiving dividends within a SIPP than receiving the dividends directly. Investors in a SIPP need to be comfortable making their own investment decisions about their retirement. Investments go down in value as well as up so you could get back less than you invest. The rules referred to are those that currently apply; they could change in the future. You cannot normally access your money until at least age 55. Tax reliefs depend on your circumstances. If you are unsure of an investment's suitability you should seek professional financial advice.

Pension consolidation

Bringing your pensions under one roof

Most people, during their career, accumulate a number of different pension plans. Keeping your pension savings in a number of different plans may result in lost investment opportunities and unnecessary exposure to risk.

However not all consolidation of pensions will be in your best interests. You should always look carefully into the possible benefits and drawbacks and if unsure seek professional financial advice.

Keeping track of your pension portfolio

It's important to ensure that you get the best out of the contributions you've made, and keep track of your pension portfolio to make sure it remains appropriate to your personal circumstances. Consolidating your existing pensions is one way of doing this.

Pension consolidation involves moving, where appropriate, a number of pension plans – potentially from many different pensions' providers – into one single plan. It is sometimes referred to as 'pension switching.'

Pension consolidation can be a very valuable exercise, as it can enable you to:

- bring all your pension investments into one, easy-to-manage wrapper
- identify any underperforming and expensive investments with a view to switching these to more appropriate investments
- accurately review your pension provision in order to identify whether you are on track

Why consolidate your pensions?

Traditionally, personal pensions have favoured with-profits funds – low-risk investment funds that pool the policyholders' premiums. But many of these are now heavily invested in bonds to even out the stock market's ups and downs and, unfortunately, this can lead to diluted returns for investors.

It's vital that you review your existing pensions to assess whether they are still meeting your needs – some with-profits funds may not penalise all investors for withdrawal, so a cost-free exit could be possible.

Focusing on fund performance

Many older plans from pension providers that have been absorbed into other companies have pension funds which are no longer open to new investment, so-called 'closed funds'. As a result, focusing on fund performance may not be a priority for the fund managers.

These old-style pensions often impose higher charges that eat into your money, so it may be advisable to consolidate any investments in these funds into a potentially better performing and cheaper alternative.

Economic and market movements

It's also worth taking a close look at any investments you may have in managed funds. Most unit-linked pensions are invested in a single managed fund offered by the pension provider and may not be quite as diverse as their name often implies. These funds are mainly equity-based and do not take economic and market movements into account.

Lack of the latest investment techniques

The lack of alternative or more innovative investment funds, especially within with-profits pensions – and often also a lack of the latest investment techniques – mean that your pension fund and your resulting retirement income could be disadvantaged.

Significant equity exposure

Lifestyling is a concept whereby investment risk within a pension is managed according to the length of time to retirement. 'Lifestyled' pensions aim to ensure that, in its early years, the pension benefits from significant equity exposure.

Then, as you get closer to retirement, risk is gradually reduced to prevent stock market fluctuations reducing the value of your pension. Most old plans do not offer lifestyling – so fund volatility will continue right up to the point you retire. This can be a risky strategy and inappropriate for those approaching retirement.

Conversely, more people are now opting for pension income drawdown, rather than conventional annuities. For such people, a lifestyled policy may be inappropriate.

Consolidating your pensions won't apply to everyone

The potential benefits of consolidating your pensions won't apply to everyone, and there may be drawbacks to moving your pension plans - particularly so for certain types of pension. It is therefore vitally important to carefully consider all aspects of your existing pensions before making a decision as to whether or not to consolidate.

As well as whether the total size of your pension funds make consolidation viable, issues to take into account include whether your existing pensions have:

- loyalty bonuses
- early termination penalties
- guaranteed annuity rates
- integrated life cover or other additional benefits
- final salary pension benefits

Many people, during their career, may accumulate a number of different pension plans and maintaining these separate plans can be laborious and complicated, leading to lost investment opportunities, exposure to undue risk and higher costs. To find out how we could help you, please contact us for further information.

Generating an income from your investments

An important requirement, especially if you've retired or are approaching retirement

How do you generate a reliable retirement income when interest rates are stuck at all-time lows and the Bank of England's quantitative easing policy of 'printing' money is squeezing yields on government bonds (gilts) and other investments?

Your ability to generate income

With more of us living longer in the UK, maintaining our standard of living in retirement and funding holidays and outings requires some careful planning. Have you considered how a longer lifespan and rising inflation could affect you and your ability to generate income?

Generating an income from your investments will be an important requirement, especially if you've retired or are approaching retirement, or if you need to supplement your salary or have a relatively short investment timeframe.

Fixed interest

The most popular forms of income investment are bonds (which are also known as 'fixed interest' investments) and cash, both of which pay a regular, consistent rate of interest either annually, twice a year or four times a year. You can also obtain an income from shares in the form of dividends, and many equity funds are set up solely with the purpose of generating a stable income. Importantly, equity income funds often aim to achieve not only stability, but also an increasing income in the long term.

Good cash flow

Income stocks are most usually found in solid industries with established companies that generate good cash flow. They have little need to reinvest their profits to help grow the business or fund research and new product development, and are therefore able to pay sizeable dividends back to their investors. Examples of traditional income-generating companies include utilities, such as oil and gas, telephone companies, banks and insurance companies.

You should remember that these investments do not include the same security of capital that is afforded by a deposit account.

Ten tips for investing for income

1. Sustainable long-term dividend growth – Investing in businesses when the growth potential is not reflected in the valuation of their shares not only reduces the risk of losing money, it increases the upside opportunity.

2. Inflation matters – Always bear in mind the detrimental effect of inflation. Corporate and government bonds offer higher yields than cash but returns can be eroded by inflation. Investment in property or equities provides a vehicle to help achieve an income that rises to keep pace with inflation.

3. Consider international diversification – A small number of UK companies account for approximately 40 per cent of UK dividend payouts. This compares with over 100 companies in the US, for example, that provide the opportunity to increase the longevity of dividend growth.

4. Patience is a virtue – Investing for income is all about the compounding of returns for the long term. As a general rule, those businesses best placed to offer this demonstrate consistent returns on invested capital and visible earnings streams.

5. Reliability is the key – Select sectors of the equity market that do not depend on strong economic growth to deliver attractive returns to investors.

6. High and growing free cash flow – Look for companies with money left over after all capital expenditure, as this is the stream out of which rising dividends are paid. The larger the free cash flow relative to the dividend payout the better.

7. Dividend growth – In the short term, share prices are buffeted by all sorts of influences, but over longer time periods fundamentals have the opportunity to shine through. Dividend growth is the key determinant of long-term share price movements – the rest is sentiment.

8. Cautious approach – Profits and dividends of utility companies are at the whim of the regulator. Be cautious of companies that pay a high dividend because they have gone ex-growth – such a position is not usually sustainable indefinitely.

9. Investment diversification – The first rule of investment is often said to be 'spread risk'. Diminishing risk is particularly important for income-seekers who cannot afford to lose capital.

10. Tax-efficiency – Increase your net income by using an ISA (Individual Savings Account). The proceeds from ISA income is free of taxation, thereby potentially improving the amount of income you actually receive. UK dividend income has been taxed at source at the rate of 10 per cent and this cannot be reclaimed by anyone. The proceeds from ISAs are also free from capital gains tax, allowing you to switch funds or cash in without a tax charge.

The economic environment has been particularly unforgiving for investors who need to generate an income. The Bank of England reduced interest rates to a record low level as the financial crisis deepened – and savings rates followed.

Past performance is not necessarily a guide to the future. The value of investments and the income from them can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax relief (if any) will depend upon your individual circumstances.

Which income-generating investments are right for you?

In the current environment of abnormally low interest rates, cash savings accounts almost all pay negative rates of return after taking into account the effects of inflation and tax. To discuss your financial position or review which type of income-generating solutions are right for you, please contact us for more information.

Will you be able to enjoy your retirement without the constant worry about making ends meet?

More over-55s are increasingly working past retirement age as living costs hit savings

The UK's over-55s are increasingly working past the traditional retirement age as larger numbers fall back on their savings in later life to meet living costs, according to Aviva's latest Real Retirement Report.

The report examines the financial pressures faced by the UK's three ages of retirement: 55-64s (pre-retirees), 65-74s (the retiring) and over-75s (the long-term retired).

Prolonged working boosts income

Average monthly income for the over-55s has increased by just £109 in the last two years (from £1,335 – Q4 2010 to £1,444 – Q4 2012). The retiring have driven this trend, gaining £166 overall, while monthly incomes have risen a mere £9 for pre-retirees and fallen by just £1 for the long-term retired (see table opposite for details).

The income boost for the retiring has been driven by more people working past the Default Retirement Age, which was phased out in 2011. Since the Real Retirement Report launched three years ago, the percentage of this age group who list wages as part of their income has risen from 18 per cent to 23 per cent (Q4 2012).

The report also shows the growing importance of workplace benefits in retirement. With the effects of auto-enrolment yet to kick in for future generations, people aged 65-74 (47 per cent) are still more likely to draw income from an employer pension than those aged 75 and over (37 per cent).

Expenditure

Monthly spending by the UK's over-55s has actually fallen in the last year, despite annual inflation of 2.74 per cent (Q4 2012), with average outgoings of £1,231 in Q4 2012 down from £1,269 in Q3 2012 and £1,300 in Q4 2011.

The typical over-55 has cut back on non-essential items and prioritised debt repayment, travel, and fuel and light. Spending on entertainment, recreation and holidays has fallen by 19 per cent in the last quarter, while clothing and footwear has dropped by 13 per cent and leisure goods by 10 per cent. Meanwhile, spending on debt repayment has increased by 8 per cent and almost matches monthly food bills (£177.58 compared with £189.45).

Savings

The average saving pot for over-55s has fallen by almost £4,000 in the last quarter (£14,544 – Q4 2012 compared with £18,364 – Q3 2012). This remains larger than a year ago (£11,153 – Q4 2011), but while pre-retirees' savings have reached their highest level since the report began, total savings have decreased among the two older age groups, both in the last quarter and in the last two years (see table opposite for details).

Dipping into savings

The need for the long-term retired to dip into their savings to maintain their standard of living has seen the percentage with less than £2,000 saved grow from 23 per cent (Q3 2012) to 30 per cent (Q4 2012).

In addition, the amount retirees save is actually down by 28 per cent from Q1 2012 although they have increased marginally year-on-year (up 7 per cent in Q4 2012 compared to Q4 2011). The typical over-55 puts away just £28.67 or 1.99 per cent of their monthly income; a mere £1.77 more than the same time last year.

Choice or necessity

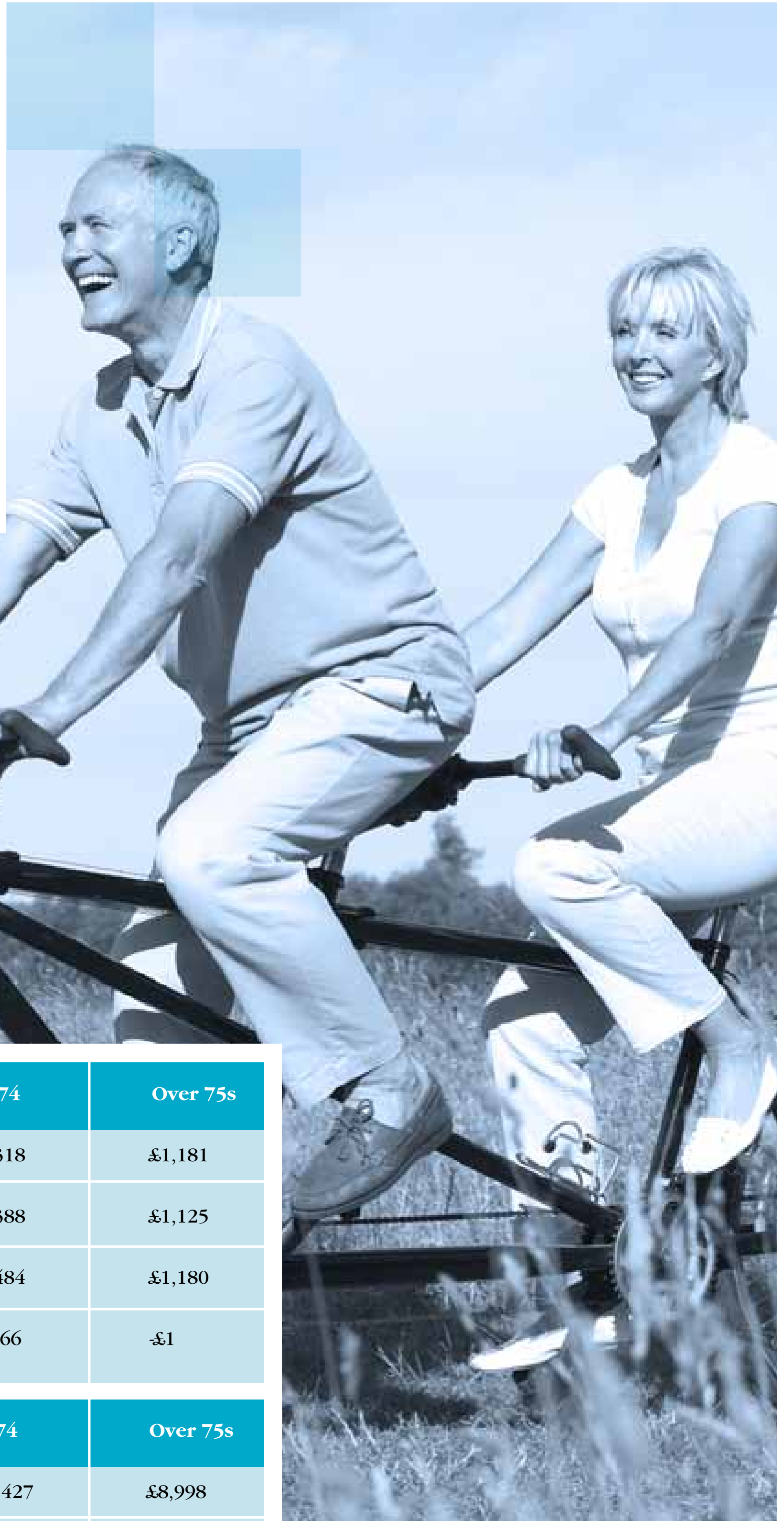
Whether it's through choice or necessity, the fact that people are working for longer shows how vital it is to work hard to achieve financial stability, so you can enjoy your retirement without the constant worry about making ends meet.

The growth of income among the retiring population is a clear sign they are taking the opportunity to prepare for the future, and prioritise their outgoings to clear existing debts. And while the long-term retired may find their savings dwindle in retirement, it's important to remember that, with the right advice, there are often alternative ways to cope with rising living expenses and unforeseen costs.

Achieve your desired retirement income

If you have concerns about your retirement and want to find out how much you should be saving to help achieve your desired retirement income, please contact us for further information – we look forward to hearing from you.

Source - The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this more than 14,600 UK consumers aged over 55 were interviewed between February 2010 and November 2012. This data was used to form the basis of the Aviva Real Retirement Report. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics become apparent. Population projections from ONS.



	All	55-64	65-74	Over 75s
Q4 2010	£1,335	£1,480	£1,318	£1,181
Q4 2011	£1,285	£1,271	£1,388	£1,125
Q4 2012	£1,444	£1,489	£1,484	£1,180
Difference	+ £109	+£9	+£166	-£1

	All	55-64	65-74	Over 75s
Q4 2010	£15,262	£11,903	£21,427	£8,998
Q4 2011	£11,153	£6,665	£21,070	£8,498
Q3 2012	£18,364	£12,351	£30,624	£13,332
Q4 2012	£14,544	£13,873	£18,748	£8,748

Outlook for the New Centenarians

Financial pressures to snowball for future generation

A generation of 'New Centenarians' will be forced to work well into their 70s to stay afloat, according to new research from Scottish Widows. In addition to working longer, they will face a hat-trick of financial pressures as early as their mid-twenties, with the stresses of saving for their first home, paying back their student loans and starting a retirement fund impacting on them much earlier than other generations.

Unsurpassed average life expectancy

The Office for National Statistics believes that one in three babies born in 2012 in the United Kingdom will live to be 100. This unsurpassed average life expectancy, combined with the rising costs of living, education and housing, means that our children will need to plan much earlier for their future and work for longer than ever before.

The Scottish Widows survey of 1,000 parents with children under the age of 5 reveals that nearly 78 per cent are concerned that their children may need to work well into their 70s.

Leading economist and trend forecaster Steve Lucas of Development Economics analysed the financial and life milestones that babies born in 2012 will reach before they turn 100. Looking backwards from 2112, the research paints a picture of what life might look like for these babies and examines the steps an average New Centenarian will have taken throughout life in comparison to his or her parents and grandparents.

The personal financial landscape 100 years in the future

Changes to ways that student loans (and, for many people, high tuition fees) are provided mean that those New Centenarians who complete higher education could be paying off their student debts of £73,000 until they are 52 years old.

Couples will increasingly delay having their first child until they are in their early 30s, compared to their late 20s now. An increasing proportion of people will either have no children or just one child. After the purchase of their home, considering the financial burden of having children is probably the most important financial decision they will face in their lives.

Financial products are likely to change to allow for mortgages to be paid over a longer period of time due to people working longer and increased life expectancy. New Centenarians are likely to be paying off their mortgage until they are at least 61, four years later than their parents and seven years later than their grandparents.

In order for New Centenarians to provide an acceptable standard of living for themselves in old age, a pension pot of £2.4m in retirement savings will need to start sooner.

The cost of social care is likely to be another major concern for this future generation. Many New Centenarians will need to contribute financially to the care costs of their parents' generation, as well as try to put some funds aside for their own care costs in their final years.

Nature of work is likely to change

The state retirement age will be at least 70 by the turn of the next century and an increasing proportion of people will continue working well into their 70s, either because they can't afford to retire or because they feel it is in their best interest to continue working.

However, the nature of their work is likely to change. According to Lucas, 'In the future, older workers – especially in the professional and business services sector – are likely to stay working longer into their 70s, but the nature of this work will become more flexible and probably more part-time. Workers in manual or vocational careers are also likely to look to extend their working lives by undertaking a less strenuous, more part-time role.'

However, this means that New Centenarians could be supporting themselves with a potentially limited income for up to 30 years of retirement. In order properly to prepare for prolonged retirement and counter the effects of the collision of financial pressures, Lucas explains that New Centenarians will need to begin saving for their retirement from at least age 25 and that parents should encourage their children to start understanding finances and the importance of saving from a young age.

It isn't all doom and gloom for this generation

Almost 45 per cent are concerned that their children will not be able to save enough money for a longer retirement. Yet almost 40 per cent of parents are not considering their child's long-term future as part of their financial planning and half of all parents would not consider starting a pension for their child on their first birthday.

However, it isn't all doom and gloom for this generation, as 41 per cent of parents are excited about the potential for long-lasting family relationships and a further 37 per cent are pleased to think their children will accomplish more in life because they will be healthier longer.

Saving enough for a retirement of 30 years or more

The dramatic speed at which life expectancy is increasing means we need to radically rethink our perceptions of life, especially for our children. Most workers today expect their pension to fund a retirement of up to 20 years but increased life expectancy means New Centenarians may have to save enough for a retirement of 30 years or more. To discuss how we could help you plan for your children's and grandchildren's future, please contact us for further information. Don't leave it to chance.

Source - This research was undertaken based on past and expected future demographic trends using published research and data from the Office for National Statistics (ONS); this included trend data on life expectancy, healthy life expectancy, fertility, marriage, divorce, having children, commencement of working lives and ages of retirement. ONS data was also used to estimate expected future trends for financial matters including earnings, rents, house prices, mortgage costs and retirement incomes. A range of other information sources – published and unpublished – were utilised to obtain insights into recent and expected future social trends.

Estimates of future financial costs – including earnings, housing costs, student debt and retirement savings – were calculated using bespoke economic and financial models developed by the authors of the research. These figures were estimated by projected-forward underlying trends evident in existing datasets, coupled as appropriate with trend-based inflation assumptions.

The main exception is in the area of future student debt, where a new system is currently being introduced and for which current data cannot be used to construct forward estimates. In this case future estimates were based on a literature review of estimated future student debt liabilities, using sources including the Department for Education, the National Union of Students and student loan companies.

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